

Message Text

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ACTION EA-12

INFO OCT-01 EUR-12 ISO-00 SSO-00 ICAE-00 AID-05
CIAE-00 COME-00 EB-08 FRB-03 INR-10 NSAE-00
XMB-02 OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 INRE-00
SS-15 STR-07 CEA-01 NSCE-00 PA-01 L-03 H-01 /092 W
-----120858 210659Z /13

O 210632Z APR 78
FM AMEMBASSY TOKYO
TO SECSTATE WASHDC IMMEDIATE 7290
TREASURY/DEP WASHDC IMMEDIATE

FO RUFHOL/AMEMBASSY BONN 2893
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME

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USEEC

USOECN ALSO FOR EMBASSY

E.O. 11652: N/A
TAGS: EFIN, JA
SUBJECT: REACTION TO TREASURY GOLD SALES ANNOUNCEMENT

1. SUMMARY: THE DOLLAR CLIMBED 2.40 YEN TO CLOSE AT
224.40 TO THE DOLLAR ON APRIL 20 FOLLOWING U.S. TREASURY
ANNOUNCEMENT OF INTENT TO UNDERTAKE GOLD SALES PROGRAM.
DOLLAR FURTHER STRENGTHENED TO AS HIGH AS 226.10 IN
MORNING TRADING IN TOKYO MARKET APRIL 21. STATEMENTS
ATTRIBUTED TO UNIDENTIFIED MINISTRY OF FINANCE (MOF) AND
BANK OF JAPAN (BOJ) OFFICIALS WELCOMED THE MOVE,
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STRESSING ITS TIMELY FAVORABLE PSYCHOLOGICAL IMPACT ON
FOREX MARKET. COMMERCIAL BANKS SOURCES NOTE PSYCHOLOGICAL
BENEFIT BUT ALSO OBSERVE THAT FUNDAMENTALS UNCHANGED. MOF
SPEAKS UP TO HEAD OFF MITI TRIAL BALLOON ON GOLD STOCK-
PILING. END SUMMARY.

2. PRESS STORIES APRIL 21 REPORT THAT UNIDENTIFIED MOF

AND BOJ OFFICIALS WELCOMED U.S. DECISION TO SELL GOLD. MOF OFFICIAL REPORTEDLY SAID THE MOVE WILL CONTRIBUTE TO THE STABILITY OF THE YEN AND STEM FURTHER WEAKENING OF THE DOLLAR. HE SAID THE EFFECT ON MARKET PSYCHOLOGY SHOULD BE FAVORABLE BECAUSE IT FOLLOWS A PERIOD WHEN THE YEN HAD BECOME A LITTLE MORE STABLE. IT WAS NOTED, HOWEVER, THAT THE ACTUAL AMOUNT OF THE GOLD SALES WAS NOT LARGE ENOUGH TO HAVE A MAJOR DIRECT EFFECT IN STABILIZING THE DOLLAR RATE AND THAT MOF WAS FOLLOWING WITH INTEREST U.S. INFLATION AND ENERGY POLICIES WHICH ARE DESIGNED TO GET AT THE FUNDAMENTAL PROBLEM OF THE LARGE U.S. TRADE DEFICIT. MOF OFFICIAL REPORTEDLY WENT ON TO PORTRAY THE GOLD SALES AS THE FIRST RECENT ACTION THE U.S. HAS TAKEN DIRECTLY INTENDED TO STABILIZE THE DOLLAR, SUGGESTING (IN PARAPHRASE) THAT THE U.S.-GERMAN SWAP AGREEMENT DID NOT REALLY CONSTITUTE EVIDENCE OF U.S. DESIRE TO STABILIZE THE DOLLAR IN THE FOREIGN EXCHANGE MARKET.

3. SPOKESMAN FOR BOJ IS QUOTED AS MAKING SIMILAR REMARKS TO PRESS, STRESSING THAT IT REVEALED THE U.S. GOVT'S INTENTION TO IMPLEMENT (ALL POSSIBLE) MEASURES TO DEFEND DOLLAR.

4. COMMERCIAL BANKS REPORTEDLY ALSO EMPHASIZED THE FAVORABLE PSYCHOLOGICAL IMPACT OF THE ANNOUNCEMENT BUT NOTED THE UNDERLYING FUNDAMENTALS THAT WERE CAUSING A LIMITED OFFICIAL USE

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HIGH YEN HAD NOT CHANGED.

5. REMARKS ATTRIBUTED TO TREASURY SPOKESMEN THAT THE U.S. IS CONSIDERING SELLING GOLD FOR DM'S IN AUCTIONS SUBSEQUENT TO THE MAY AUCTION HAVE RECEIVED COVERAGE HERE BUT TO DATE THERE HAS BEEN NO OFFICIAL PUBLIC REACTION DIRECTED SPECIFICALLY TO THIS POINT.

6. IN HIS COMMENTS TO THE PRESS, MOF OFFICIAL TOOK THE OCCASION TO HEAD OFF A PROPOSAL FLOATED EARLIER BY MITI THAT JAPAN, AMONG ITS OTHER STOCKPILING SCHEMES, SET UP A NEW GOLD STOCKPILE AS A MEANS OF REDUCING THE CURRENT ACCOUNT SURPLUS. MOF SPOKESMAN NOTED THAT EFFECT OF U.S. GOLD SALES WOULD BE TO WEAKEN THE HIGH GOLD PRICE, THE LEVEL OF WHICH PARTLY REFLECTED THE WEAKENED EXCHANGE VALUE OF THE DOLLAR. HE REPORTEDLY NOTED IF JAPAN WERE TO FOLLOW THIS BY GOLD PURCHASES, THERE WOULD BE ADVERSE INTERNATIONAL REACTION.

7. EMBASSY WOULD APPRECIATE RECEIVING TEXT OF TREASURY ANNOUNCEMENT AND ANY BACKGROUND THAT CAN BE PROVIDED CONCERNING OTHER OFFICIAL U.S. STATEMENTS MADE IN CONNEC-

TION WITH THE ANNOUNCEMENT. MANSFIELD

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: GOVERNMENT REACTION, SALES, GOLD, ECONOMIC PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 21 apr 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978TOKYO07049
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780170-0789
Format: TEL
From: TOKYO USEEC
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780429/aaaaaycn.tel
Line Count: 117
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: d61f54a9-c288-dd11-92da-001cc4696bcc
Office: ACTION EA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 03 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2883691
Secure: OPEN
Status: NATIVE
Subject: REACTION TO TREASURY GOLD SALES ANNOUNCEMENT
TAGS: EFIN, JA
To: STATE TRSY
Type: TE
vdkgvkey: odbc://SAS/SAS.dbo.SAS_Docs/d61f54a9-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014